Hartalega Holdings (HART MK)

1QFY27: Windfall Quarter, But Plenty Of Challenges Ahead

	HOLD (Maintained)
Share Price	RM1.06
Target Price	RM1.06
Upside	0.0%

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Highlights

- Harta's 1QFY27 earnings improved significantly as lower volume sales (-7% qoq) were largely offset by much higher ASP (+27% qoq) due to the Iran war.
- Nevertheless, the upcoming 2Q-3QFY27 results may see margin compression as ASPs largely normalised, while raw material and energy costs remained elevated.
- Structurally, intensifying China competition and oversupply dynamics continue to impact earnings. Maintain HOLD with an unchanged target price of RM1.06.

1QFY27 Results

Year to 31 Mar (RMm)	1QFY27	qoq % chg	yoy % chg	Comments
Revenue	605.8	17.5	9.5	Surged qoq as lower volume sales (-7%) offset by much higher ASP (+27%)
Operating exp.	-525.7	9.2	-3.6	Lower yoy opex after workforce reduction
EBITDA	132.4	45.0	141.2	Improved qoq vs RM91m in 4QFY26
EBIT	90.5	80.4	527.9	
Finance costs	-0.1	-160.8	-30.6	
PBT	90.5	79.9	531.2	
Taxation	-20.3	97.8	921.6	
Core net profit	71.9	224.9	781.1	Stronger earnings, within expectations
		qoq ppt chg	yoy ppt chg	
EBITDA margin (%)	21.9	4.1	11.9	
Eff. tax rate (%)	-22.5	-2.0	-8.6	
Core Net Margin (%)	11.9	7.6	10.4	Margin improved qoq on higher ASP

Source: Hartalega Holdings, UOB Kay Hian

Analysis

- **Within expectations.** Hartalega Holdings (Harta) registered a 1QFY27 core net profit of RM72m (4QFY26: RM22m), after stripping out exceptional items. 1QFY27 earnings accounted for 49% and 46% of our and consensus full-year estimates respectively, but are deemed within expectations as we anticipate weaker earnings in the upcoming quarters for the rest of FY27.
- **Stronger qoq revenue reflects meaningful ASP growth and modest MYR/USD rate uplift, offsetting weaker volume sales.** Note that Harta's revenue increased 10% yoy and 18% qoq in 1QFY27, despite lower volume sales (-7% qoq). This was mainly due to a spike of ASPs in US dollar terms (+26% qoq) to US$25.71/'000 pieces, besides a marginal strengthening of the US dollar against the ringgit (+1.1% qoq).

Key Financials

Year to 31 Mar (RMm)	2025	2026	2027F	2028F	2029F
Net turnover	2,585.6	2,135.4	3,134.2	3,232.7	3,383.5
EBITDA	53.2	281.0	364.7	375.0	410.6
Operating profit	(97.5)	117.3	193	202	235
Net profit (rep./act.)	(72.9)	84.3	147	152	176
Net profit (adj.)	(61.8)	72.0	147	152	176
EPS	(1.8)	2.1	4.3	4.5	5.2
PE	(50.4)	55.4	24.4	23.5	20.4
P/B	0.7	0.9	0.8	0.8	0.8
EV/EBITDA	41.2	10.2	6.8	6.6	6.1
Dividend yield	12.3	1.5	2.2	2.3	2.7
Net margin	(2.8)	4.0	4.7	4.7	5.2
Net debt/(cash) to equity	(21.3)	(25.7)	(25.1)	(29.3)	(31.3)
Interest cover	25.8	946.1	626.3	388.7	304.8
ROE	(2.2)	2.5	3.3	3.4	3.8
Consensus net profit	n.a	n.a	157.9	167.6	176.5
UOBKH/Consensus (x)	n.a	n.a	0.93	0.91	0.99

Source: Hartalega Holdings, Bloomberg, UOB Kay Hian

Stock Data

GICS Sector	Consumer Discretionary
Bloomberg ticker	HART MK
Shares issued (m)	3,407.5
Market cap (RMm)	3,611.9
Market cap (US$m)	881.7
3-mth avg daily t'over (US$m)	2.9

Price Performance (%)

52-week high/low				RM1.41/RM0.80
1mth	3mth	6mth	1yr	YTD
6.0	(7.0)	15.2	(25.4)	7.1

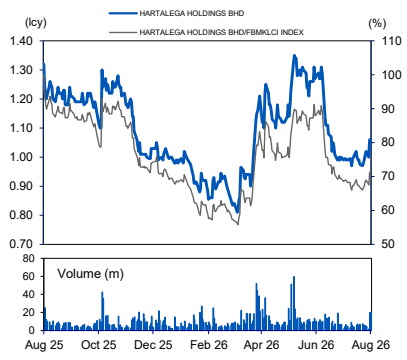
Major Shareholders

	%
Hartalega Industries Sdn Bhd	34.49
Budi Tenggara Sdn Bhd	8.66
KWAP	6.36

Balance Sheet Metrics

FY27 NAV/Share (RM)	1.32
FY27 Net Debt/Share (RM)	(0.33)

Price Chart



Source: Bloomberg

Company Description

Hartalega is the world's leading nitrile glove manufacturer.

- **Operating metrics mixed, but margins improved on significant ASP hike.** In 1QFY27, Harta charted a lower utilisation rate of 64% (4QFY26: 69%) based on an adjusted capacity of around 36b. This mainly reflects softer demand as customers' inventory replenishment was disrupted by the ongoing Iran war. Nevertheless, a meaningful ASP spike of 26% qoq towards US$25.71/'000 pieces significantly lifted revenue and profitability margin. Coupled with continuous cost rationalisation and efficiency enhancement efforts, EBITDA margins rose to 21.9% (+4ppt qoq).

1QFY27 Operating Metrics

	4QFY26	qoq % chg	yoy % chg	Comments
Gloves (b pcs.)	5,879	-7.2	-0.5	Decreased qoq on softer demand
Utilisation rate (%)	64%	-7.4	-4.5	Weaker demand dragging utilisation rate.
Blended ASP (US$)	25.7	25.9	18.3	ASPs decreased 26% qoq in US dollar terms
Exchange rate	4.01	1.0	-7.0	US dollar strengthened 1.1% qoq against ringgit
COG/ '000 gloves (RM)	89.4	17.7	-3.2	Cost per unit surged on higher input cost

Source: Hartalega Holdings, UOB Kay Hian

- **Sequentially weaker 2Q-3QFY27 anticipated.** Following the de-escalation of the Iran war, ASPs moderated swiftly from the peak of US$26-27/'000 pcs in 1QFY27 to US$19-20/'000 pcs for Aug-Sep 26 shipments. Meanwhile, Harta is guiding potential margin compression in 2QFY27, as the group needs to lock in and deplete its raw material inventories which were purchased at higher costs due to the Iran war. Furthermore, the upcoming natural gas tariff's upward revision in 3QFY27 will also lift energy costs and further pressure operating margins. Overall, we opine that softer ASPs and higher input costs will result in weaker earnings through the rest of FY27 for Harta.
- **Stiff competition from China glovemakers remains as a structural threat.** Given the severity of the current US tariffs on China-made medical gloves (147% in 2026), China glovemakers have largely reduced their exposure to the US market and re-channelled their sales to regions like Europe and Asia with more competitive price-cutting strategies. This has resulted in more challenging dynamics and declining profitability (lower ASPs and margins) for non-US sales. Over a mid- to long-term horizon, China glovemakers' further expansion in Indonesia and Vietnam is likely to continue exerting competitive pressure, indirectly capping the ASP trend and profitability for Malaysian glovemakers. This also results in a structural de-rating on valuations.
- **Automation efforts to achieve optimal efficiency and cost levels.** Harta previously set aside RM285m for 2026-27 to further automate its production lines to optimise overall efficiency. Hence, margins could marginally recover in FY27 off FY25's low base, coupled with an improvement in utilisation rate on better demand beginning 1QFY27 (Apr-Jun 26). The full commission of production lines in its Plant 9 which leverages automation and vision systems will also drive higher yields and lower labour costs. In FY27, management intends to restart and upgrade its Plant 3, lifting running capacity from current 27b pieces annually (after hibernating Plant 3 and 4) to 30b pieces by end-26.
- **Healthy balance sheet with RM1.1b net cash.** As of 1QFY27, Harta was in a net cash position of RM1.1b (~31% of market cap). Alongside an improving earnings outlook and restoration of dividend payout, Harta is well-positioned to navigate through the current challenges and further enhance its efficiency.

Valuation/Recommendation

- **Maintain HOLD and target price of RM1.06.** Our target price is ascribed to 24.0x 2027F PE (five-year mean).

Earnings Revision/Risk

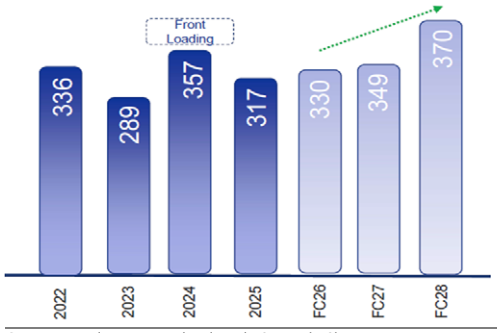
- **Earnings revision**: None.

Assumptions

	FY26	FY27F	FY28F
Revenue (RMm)	2135	3134	3233
Growth yoy (%)	-17%	47%	3%
ASP growth yoy (%)	3%	16%	-7%
Volume growth (%)	4%	9%	11%
Profit (RMm)	84	147	152
Growth yoy (%)	226%	75%	4%
Profit margin (%)	4%	5%	5%

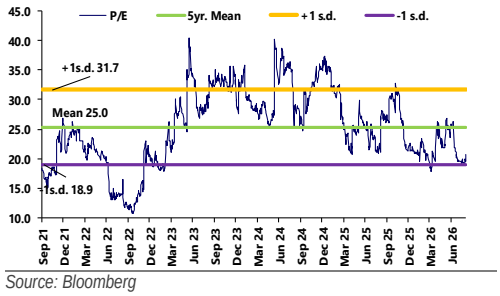
Source: UOB Kay Hian

Global Gloves Demand (b' pieces)



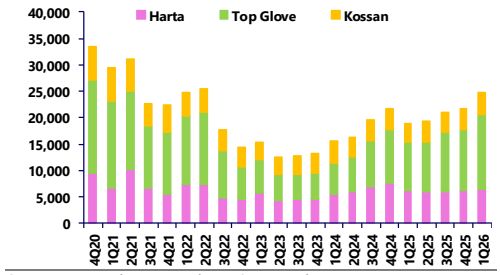
Source: Hartalega, International Trade Center (ITC)

Five-Year Forward PE Band



Source: Bloomberg

Malaysian Glove Players' Quarterly Sales Volume (m' pcs)



Source: Respective companies, UOB Kay Hian

Environmental, Social, Governance (ESG) Updates

Environmental

- Commits to reducing its carbon footprint by lowering greenhouse gas (GHG) emission intensity by 2026.

Social

- Social compliance policy is in accordance with local and international standards including the International Labour Organisation's (ILO) 11 indicators of Forced Labour.

Governance

- Five board members are independent directors, amounting to 63% of the board members.

Profit & Loss

Year to 31 Mar (RMm)	2026	2027F	2028F	2029F
Net turnover	2,135	3,134	3,233	3,383
EBITDA	281	365	375	411
Deprec. & amort.	164	171	173	176
EBIT	117	193	202	235
Total other non-operating income	(12)	(0)	(0)	(0)
Associate contributions	0	0	0	0
Net interest income/(expense)	(0)	(1)	(1)	(1)
Pre-tax profit	105	193	201	233
Tax	(21)	(46)	(49)	(58)
Minorities	1	1	1	1
Net profit	84	147	152	176
Net profit (adj.)	72	147	152	176

Balance Sheet

Year to 31 Mar (RMm)	2026	2027F	2028F	2029F
Fixed assets	2,610	2,443	2,444	2,433
Other LT assets	374	409	383	368
Cash/ST investment	1,144	1,141	1,356	1,479
Other current assets	768	1,009	1,036	1,074
Total assets	4,897	5,002	5,219	5,354
ST debt	0	0	0	0
Other current liabilities	288	318	458	505
LT debt	8	15	23	31
Other LT liabilities	184	184	184	184
Shareholders' equity	4,417	4,484	4,553	4,632
Minority interest	(1)	0	1	1
Total liabilities & equity	4,897	5,002	5,219	5,354

Cash Flow

Year to 31 Mar (RMm)	2026	2027F	2028F	2029F
Operating	322	113	309	327
Pre-tax profit	105	193	201	233
Tax	(21)	(46)	(49)	(58)
Deprec. & amort.	164	171	173	176
Associates	0	0	0	0
Working capital changes	97	(206)	(16)	(25)
Non-cash items	(43)	0	0	0
Other operating cashflows	21	1	1	1
Investing	(86)	(35)	(18)	(114)
Capex (growth)	(3)	(35)	(18)	(114)
Proceeds from sale of assets	369	369	369	369
Others	(329)	(369)	(369)	(369)
Financing	(10)	(81)	(77)	(90)
Dividend payments	0	(80)	(84)	(96)
Proceeds from borrowings	4	0	8	8
Loan repayment	(3)	0	0	0
Others/interest paid	(11)	(1)	(1)	(1)
Net cash inflow (outflow)	226	(3)	215	123
Beginning cash & cash equivalent	923	1,144	1,141	1,356
Changes due to forex impact	(5)	0	0	0
Ending cash & cash equivalent	1,144	1,141	1,356	1,479

Key Metrics

Year to 31 Mar (%)	2026	2027F	2028F	2029F
Profitability				
EBITDA margin	13.2	11.6	11.6	12.1
Pre-tax margin	4.9	6.1	6.2	6.9
Net margin	4.0	4.7	4.7	5.2
ROA	2.1	3.0	3.0	3.3
ROE	2.5	3.3	3.4	3.8
Growth				
Turnover	(17.4)	46.8	3.1	4.7
EBITDA	40.0	29.8	2.8	9.5
Pre-tax profit	144.0	83.9	4.5	15.9
Net profit	226.4	104.0	3.8	15.1
EPS	226.4	104.0	3.8	15.1
Leverage				
Debt to total capital	0.2	0.3	0.5	0.7
Debt to equity	0.2	0.3	0.5	0.7
Net debt/(cash) to equity	(25.7)	(25.1)	(29.3)	(31.3)
Interest cover	946.1	626.3	388.7	304.8

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